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Surveys of Consumers

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CONSUMER CONFIDENCE RISES

- The Index of Consumer Sentiment rose to 94.8 in the May 1988 survey, rebounding from the decline to 91.2 in April, to just above the 94.6 recorded in March. The May reading was the highest level recorded in more than a year. The improvement was due to more favorable assessments of the national economy as well as more favorable buying attitudes. Partially offsetting these gains, however, consumers' assessments of their own financial situation slipped in the recent survey.

- Among families with incomes of $30,000 or more, the Index rose to 106.6 in the May 1988 survey, from 99.1 one month earlier, and 97.7 one year earlier.

- The proportion of families that expected good times financially in the country as a whole rose to 54 percent in the May 1988 survey, up from 50 percent one month earlier, and the crash induced low of 38 percent recorded six months earlier. Prospects for the national economy over the longer term also improved, with the proportion of families that expected good times during the next five years rising to 41 percent in May 1988, up from 36 percent one month earlier, and the low of 31 percent recorded six months earlier.

- The national unemployment rate was expected to remain largely unchanged during the year ahead at its current ten-year low by two-thirds of families in the May 1988 survey—the highest proportion ever recorded to expect an unchanged unemployment rate. Compared with a year ago, consumers' opinions have shifted from the expectation of increases in unemployment (21 percent in May 1988, down from 32 percent one year earlier) to the expectation of no change (67 percent in May 1988, up from 53 percent a year earlier). Few consumers expected further declines in the national unemployment rate in the May survey (11 percent).

- Concerns with rising interest rates greatly heightened in the May 1988 survey, reversing the entire improvement recorded following the stock market crash. In the May 1988 survey, 64 percent of all families expected interest rates to increase during the year ahead, up sharply from the 48 percent recorded just one month earlier. This returns interest rate expectations to the very unfavorable levels recorded from May through September of last year, and has again become for consumers the main the focal point of concern with current economic prospects.

- In the May 1988 survey, consumers expected the rate of inflation during the year ahead to average 4.9%. This represents an increase from 4.5% one month earlier, and 4.7% one year earlier. Much of the increase in inflation expectations occurred during the prior year, when inflation expectations increased from 3.4% in May 1986 to 4.7% in May 1987.

- Favorable attitudes toward buying conditions for appliances, furniture, and home electronics were held by 79 percent of all families in the May 1988 survey, up from 73 percent in April, and the highest level since the all-time peak of 81 percent was recorded two years ago. When asked to explain these very positive views, consumers continued to place their primary emphasis on the availability of price discounts.

- Favorable car buying attitudes were held by 64 percent of all families in the May 1988 survey, between the 63 percent recorded one month earlier, and the 67 percent recorded one year earlier. The maintenance of car buying attitudes at high levels has been accompanied by a shift in the underlying reasons given by consumers. During the past year, favorable references by consumers to the availability of discounted interest rates on vehicle purchases have declined from 37 to 17 percent, placing greater emphasis on the availability of price discounts.

- Buying conditions for homes were viewed favorably by 72 percent of all families in the May 1988 survey, unchanged from one month earlier, but below the year earlier reading of 77 percent. Although the overall frequency of favorable home buying attitudes has not changed in recent months, the reasons underlying these views have shifted. From March to May of 1988, references to the current availability of low interest rates fell to 37 from 47 percent, while references to the advantages of borrowing-in-advance of rising interest rates rose to 14 from 7 percent. As such, these reactions to expected interest rate increases indicate as much short term strength as long term weakness.

- Consumers' evaluations of their current financial situation have weakened. Among all families in the May 1988 survey, 40 percent reported that their financial situation had improved, down from 49 percent just two months earlier. Since the start of the recovery, these personal financial evaluations have moved sideways in a zig-zag pattern at very favorable levels: the 49 percent in March was the highest level, and the 40 percent in May was nearly the lowest of these readings. Nonetheless, even after the May decline, these personal financial assessments still remained more favorable than the cyclical peak recorded in the late 1970s. The primary reason for the recent weakness has been less favorable income developments. Among all families in the May 1988 survey, the proportion that reported income gains fell to 29 percent from 40 percent in March.

- In contrast to their current situation, consumers continue to view their financial prospects for the year ahead favorably. Among all families in the May survey, 36 percent expected their financial situation to improve, up from 34 percent one

month earlier and 32 percent one year earlier. Just 9 percent of all families expected their financial situation to worsen during the year ahead, while the majority of families expected their financial situation to remain largely unchanged.

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The most recent survey indicates that U.S. consumer confidence has remained at very favorable levels. This is not the first time in this long expansion that the persistent strength in consumer confidence has confounded the pessimists. For the past five years, consumer sentiment has been more favorable than anytime since the mid 1960s. There have only been 7 months when the Index fell below 90 since May of 1983; in comparison, in the five years prior to that, the Index was never above 90. Interestingly, the 7 monthly surveys that fell below this mark all occurred in the months from September to December, in each of the past five years, except for 1984. The crash induced decline in late 1987 was deeper than the prior declines, and the recovery has been correspondingly larger.

Indeed, consumer confidence may now be more favorable than it would have been if the crash had not taken place. Fearing the worst, the actual developments in the U.S. economy since the crash have been judged more favorably than they would have been otherwise. Given the widespread fear and uncertainty spawned by the crash, just avoiding a recession became good news.

Nonetheless, the rebounds from these late year declines have not completely reversed the losses, thus diminishing the overall trend in consumer confidence. At present, it is not so much that further improvement is expected, but that consumers expect that the gains won over the long expansion will be maintained during the year ahead.

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The May 1988 survey was conducted between May 1 and May 28, 1988 and included 500 completed interviews.